Outlook

Confirmed - Post CM discussion on RUC

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1 attachment (106 KB)
Road user charging.docx;

Microsoft Teams Need help?

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Dial in by phone

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Deliver road infrastructure through efficient road user charging

Pillar 1 - Dynamic economy

Summary

Issue:

Australia's system for collecting revenue to fund road infrastructure is outdated and inefficient. The largest source of revenue, excise on each litre of fuel used, is declining as internal combustion engines (ICEs) become more efficient and electric vehicles more prevalent. Further, fuel excise does not capture the externalities of carbon emissions or congestion, or reflect wear and tear done to roads by different types of vehicles.

Goal of reform:

The provision and use of road infrastructure is a key public investment with a direct bearing on productivity. The current model of road funding provides no investment signals about where roads should be built or to what capacity.

The reform goal is a national approach to road funding that better reflects the costs of providing and using road infrastructure.

How we define the policy *objective* will determine the preferred design of the revenue collection system. 1. a system that collects revenue to fund the building and maintenance of road infrastructure in the least distortive manner will be different both directly and distributionally to 2. a system reflecting the full social costs of road infrastructure (ie inclusive of externalities like congestion and carbon emissions).

Value-add:

There is little doubt of the need to reform the system of collecting revenue for road infrastructure. Given the potential productivity benefits of reforming Australia's approach to road infrastructure investment, our work in this area could add significantly to the government's productivity reform agenda.

The challenge and opportunity

The Commonwealth, state, territory and local governments spent around $39 billion in 2022-23 on the maintenance, upgrade and expansion of Australia's road network. Funding for road infrastructure through road taxes broadly defined is collected by all levels of government and totalled around $31 billion in the same year. Over the past couple of decades, public investment in road infrastructure has averaged around 30% of fuel taxes collected.

Fuel excise applies to all petrol and diesel vehicles as a charge of 50.8 cents per litre - it does not differentiate between these types of vehicles. There are various Commonwealth taxes and a different system of vehicle registration and transfer duty in each state and territory. Owners of fully electric vehicles do not pay fuel excise, and in some states, registration charges for these vehicles are reduced.

A road user charge (RUC) is also levied on heavy vehicles on public roads on a per litre of diesel used basis. There are also registration charges that depend on truck type, number of axles and type of trailer. The government provides a tax credit on the fuel excise to some industries – such as mining and agriculture – where they do not use public roads.

Some states attempted to overcome the weaknesses in the system of road funding by introducing distance-based charges for zero and low emissions vehicles (ZLEVs), but Victoria's was struck down by the High Court in 2023 as unconstitutional.

The decision of the High Court rules out state-based distance RUCs and means governments need to consider a national approach to road funding. This opens the opportunity to design a system that is less fragmented and better reflects the costs of providing and using road infrastructure.

We could explore:

- a mix of charging regimes – including charges that differ by vehicle type (heavy ZLEVs, light ZLEVs, light ICEs) reflecting relative road damage; charges that relate to carbon emissions (which may vary for type of fuel and engine, vehicle age); and those that relate to congestion (such as charges that vary with distance travelled, time of day)
- scope for more efficient public infrastructure investment (as one of the main potential sources of productivity improvement) associated with a switch away fuel excise to road user charges
- options for meeting community service obligations, for example, regional and remote areas where RUCs would likely only fund a fraction of total cost of road provision and maintenance
- consequences of different charging regimes for different income/wealth cohorts
- transition paths, perhaps starting with approaches aimed at recovering tax revenue and providing funds for more efficient road infrastructure, with reforms such as congestion-based charging likely to remain some way off.

What do we know already?

Considerable policy work has been done on RUCs including by the PC, Treasury, DITRDC, BITRE, NTC, Infrastructure Australia, state and territory governments, Grattan Institute and there are overseas examples to draw from.

The PC recommended road user charging in Advancing Prosperity.

> **Recommendation 3.5 The next steps toward road user charging**
>
> Australian governments should work towards an intergovernmental agreement on road user charging for all vehicle types, focusing on distance-priced charging including any road damage premiums, and subsequently, incorporating congestion charges for crowded roads. The agreement should set out the roles of the different level of governments, how road funds and trials should be implemented, and the appropriate transition pathway away from fuel excise.

> In developing a new pricing regime, Governments should consider the inclusion of compulsory third party insurance costs in distance-based charges and menu options for motorists to choose between higher distance-based charges and lower fixed charges.
>
> The appropriate level of distance-based and fixed road charges, and the desirable extent of exemptions and concessions, should be based on trials and the experiences of overseas jurisdictions that have already employed them.
>
> Ultimately, governments should work towards the longer-term objective of more efficient pricing of road use, including through the use of congestion charging in urban centres.

In 2017, the PC examined how road funds could better connect revenue collected from motorists to investments through hypothecation, with investment decisions guided by the revealed preferences of motorists.

Cooperation across levels of government will be needed given all are responsible for aspects of road infrastructure services. There are several, potentially conflicting, objectives of RUCs, including revenue raising, addressing externalities and road damage, and meeting distributional objectives.

A staged approach could mitigate some risks and improve community confidence in the reform – a short-term plan was set out in Advancing Prosperity based on:

- a flat distance-based charge plus a fixed charge (such as registration) to raise revenue for construction and maintenance costs
- supplementary surcharges over marginal costs to account for congestion, heavy vehicle road damage. This could also include a charge for carbon emissions
- general revenue for meeting community service obligations in regional and remote areas.

Plan of action

There are a few ways we could incorporate RUCs into the pillars inquiries We could:

- draw on the work already done by the PC and others, including Treasury, to inform a short discussion paper or preliminary findings report that could be released mid to late August, seeking feedback through the pillars call for submission process, which closes on 8 September. We would need to add a throw to forthcoming work in pillar 1 (and pillar 5) and undertake a quick round of consultations prior to release
- add a third reform area under pillar 1 for the interim report drawing on work already done by the PC and others. We have not flagged road user charges either internally or publicly as an area we wish to explore further or consulted with participants
- build on the material already drafted in pillar 5 that has a draft recommendation to include a carbon component if Australian governments reform the system of road user charging and seek feedback through the pillar 5 interim report. Pillar 5 has done limited consultation on road user charging but it hasn't been flagged publicly or been a primary focus of their analysis.

Under any of these options, we could incorporate the final recommendations, with quantitative estimates done using a similar approach to the NCP modelling, under pillar 1 in the final report. (Note that NCP modelling suggested a 1% increase in the productivity of the road transport sector has an estimated GDP impact of $693m or 0.03% of GDP. This is not a large effect and would likely scale roughly linearly.)

We would need to build a small team, potentially one or two people who are currently finalising the TAR, and SES oversight. We could investigate a secondee from another agency, such as Treasury or the Department of Infrastructure. The team size needed is dependent on how ambitious we intend to be with this reform and the extent of external consultation considered necessary.

An alternative minimum viable product might be to draw on our back-book of work and use the overarching narrative to promote the need for reforms to the way road infrastructure is funded (in addition to what will likely be recommended on including carbon emissions in road user charges in pillar 5).

Stakeholders

All levels of government including local, road user groups, including trucking, logistics and electric vehicles industry bodies, Federal Chamber of Automotive Industries etc.

Risks

Building the case for reform is relatively straight forward but the design and implementation of a more efficient and nationally consistent system of RUCs would be complex. While much has been done already, our team would need to quickly get across the policy issues with limited opportunity to consult prior to the release of our draft recommendations by mid to late August (at the latest).

It's also likely that we would not have any full-time team members to dedicate to this project until early July.

This reform would require tax modelling, which may be beyond the current CGE suite of tools available and the analysis might suffer from a lack of credibility without appropriate modelling, if original work is to be undertaken.

Road user charging in isolation, without any changes to public transport, housing and other substitutes for driving, will likely skew the analysis to create more of a tax burden with less impact on consumer mobility choices as there is no available new substitute.

Sources

BITRE 2023 – The economics of road maintenance

BITRE 2025 – Road related revenue and expenditure

Grattan Institute 2023 – No matter who collects EV revenue, we have to charge smartly

Infrastructure Australia 2021 – Reforms to meet Australia's future infrastructure needs

Minter Ellison 2023 - Road user charging: post-Vanderstock, towards decarbonisation

PBO 2018 – Applying a road user charge to electric vehicles

PBO 2022 - Fuel taxation in Australia | pbo

PC 2017 – Shifting the Dial

PC 2023 – Advancing Prosperity, Volume 3. pp.54-62

PC 2024 – National Competition Policy Study (user-charging)